



Capital Loan Report

Fiscal Year 2016

Report

To the

Legislature

As required by

Minnesota Statutes,

section 126C.69, Subdivision 8

COMMISSIONER:

Brenda Cassellius, Ed. D.

Capital Loan Report

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2015 section 126C.69 subdivision 8

Cost of Report Preparation

The total cost for the Minnesota Department of Education (MDE) to prepare this report was approximately \$ 284.00. Most of these costs involved staff time in analyzing data from surveys and preparing the written report. Incidental costs include paper, copying and other office supplies.

Estimated costs are provided in accordance with Minnesota Statutes 2015, section 3.197, which requires that at the beginning of a report to the Legislature, the cost of preparing the report must be provided.

Capital Loan Report

Statutory Directive

Minnesota Statutes 2011, § 126C.69, Subdivision 8, reads as follows:

*Subd. 8. **Recommendations of the commissioner.** The commissioner shall examine and consider applications for capital loans that have been approved and promptly notify any district rejected of the decision.*

The commissioner shall report each capital loan that has been approved by the commissioner and that has received voter approval to the education committees of the legislature by January 1 of each even-numbered year. The commissioner must not report a capital loan that has not received voter approval. The commissioner shall also report on the money remaining in the capital loan account and, if necessary, request that another bond issue be authorized.

Capital Loan Account Balances

At December 30, 2015, there were no active capital loan construction projects and no account balances remaining.

Background

Provisions for the school district capital loan program that provides facility funding for qualifying districts are included in the Maximum Effort School Aid Law in Minnesota Statutes section 126C.61 to 126C.72. A school district is eligible for a capital loan if the estimated net debt service tax rate, computed after debt equalization aid and assuming a 20-year maturity schedule for new debt, is greater than 40 percent of adjusted net tax capacity (Minnesota Statutes § 126C.69, subd. 2).

An eligible district must

- 1) submit a facility proposal for review and comment by July 1 of an odd-numbered year,
- 2) submit a project predesign package comparable to those required by Minnesota Statutes section 16B.335,
- 3) receive positive review and comment from the commissioner,
- 4) submit a formal capital loan application by September 1, and
- 5) receive voter approval of the approved project by January 1.

The commissioner reviews applications for projects receiving positive review and comment and may accept or reject loan applications.

One application has been received and approved by the commissioner for consideration by the 2016 Legislature. Summary of the request follows.

Maximum Effort Capital Loan Summary Independent School District 38, Red Lake

The Red Lake Independent School District has met all the statutory requirements, including voter approval, necessary to commence with this building project

Project Description

Red Lake Public Schools, Independent School District 38, is proposing a facility project which will fund various facility projects in the school district.

- The project at the Red Lake Elementary School and Early Childhood Center includes:
 - 1) connecting the Early Childhood Center building to the Elementary School by adding six classrooms and a corridor between the two existing structures
 - 2) renovating existing Music and Art rooms that have been repurposed and are currently being used as regular classrooms
 - 3) renovating the computer labs and student support areas
 - 4) relocating the special education spaces to reduce unsupervised movement and foster greater collaboration between specialists and classroom teachers
 - 5) updating existing, antiquated mechanical systems to improve efficiency of operations
 - 6) relocating the main entrance to allow the public easier access to the complex, increase building security, and provide for a more cohesive pre-K through grade five complex
 - 7) expanding the cafeteria by 2,300 sq. ft. and add 90 seats which would reduce the number of lunch periods and the amount of time spent serving students

- The project at Red Lake Middle/High School complex includes:
 - 1) renovating and expanding the Media Center
 - 2) renovating the Industrial Technology/Vocational Educational areas
 - 3) renovating the Physical Education and Fitness areas
 - 4) renovating/replacing the old steam boiler plant

- The project at Ponemah Elementary School includes:
 - 1) Renovating and expanding the Media Center
 - 2) Creating a safe bus transfer area
 - 3) Creating Physical Education fields

These school improvements will enable the school district to continue to meet the educational needs of the students and expand the educational opportunities for district residents. The total project cost qualifies for funding under provisions of the capital loan program and is estimated as follows:

Red Lake Elementary	\$ 14,069,560
Middle School/High School	11,217,320
Ponemah Elementary	<u>2,728,010</u>
Total	\$ 28,014,890

The school district is seeking capital loan funding under Minnesota Statute section 126C.69 from the 2016 Legislature to support the project. The required local portion estimated per

Minnesota Statutes section 126C.69, subdivision. 9, is \$66,547 and the capital loan request is estimated at \$28,014,890.

Impact on Agency Operating Budgets (Facilities Notes)

- There is no effect on the MDE operating budget resulting from this request.
- The effect on the school district operating budget is expected to be minimal.

Previous Capital Loans for Red Lake

1992	\$10 million	Construction of Red Lake Elementary School and addition to Red Lake Middle School
2000	\$11.166 million	Construction of Red Lake Early Childhood Center and additions to Ponemah Elementary and Middle School
2002	\$12.4 million	Additions and Renovations – Red Lake High School, Early Childhood Center, Red Lake and Ponemah Elementary Schools
2005	\$18 million	Begin construction of new middle school facilities and renovation of existing high school
2014	\$5.491 million	Remodel kitchen and cafeteria in middle and high schools

Previous Legislative Action with Line-item Vetoes

2008	\$16 million	Line-item Veto
2009	\$5.78 million	Line-item Veto
2010	\$5.78 million	Line item Veto

Other Considerations

While funding for school facilities is viewed as primarily a local responsibility, the Red Lake Independent School District has extremely low taxable property values and very little private ownership of land as most of the land is owned in common by Red Lake tribal members. Tribal property is tax-exempt. A measure commonly used to compare school district ability to raise funds through property taxes is the adjusted net tax capacity (ANTC) per pupil unit. The Red Lake 2013 ANTC per FY 2014 adjusted pupil unit was \$6.98, the lowest in the state. Statewide, the average school district ANTC per adjusted pupil unit was \$7,151.

Between FY 2004 and FY 2015, the district has experienced enrollment growth of approximately 10 percent in kindergarten to grade five enrollments. In the aftermath of a 2005 school shooting incident, grade six to 12 enrollments dropped, but are slowly recovering.

The Red Lake School district management and the Red Lake community recognize the importance of a stable and health school environment to children in and economically and socially depressed community. Completion of the facility plan will bring all Red Lake schools to current education standards.

Summaries of Activity of Maximum Effort Loan Program

Following are summaries of current outstanding capital and debt service loans under Minnesota Statutes section 126C.60-72, capital loans cancelled after 30 years, and capital loans fully satisfied by repayment of the original loan with forgiveness of current and accrued interest under the one-time provisions of Laws 2011 Special Session.

Summary of Current Capital and Debt Service Loans

DISTRICT	Date Granted	Years to Cancel	Cancel Date	Original Loan	Original Loan Retired	Default Interest Outstanding as of 12/15/15	Loan Balance as of 12/15/15
District 36, Kelliher	12-Nov-96	50	12-Nov-46	6,900,000.00		10,882,821.43	17,782,821.43
District 38, Red Lake							
Capital Loan #1	18-Jun-92	50	18-Jun-42	10,000,000.00		22,730,990.01	32,730,990.01
Capital Loan #2	12-Jan-01	50	12-Jan-51	11,165,999.82		8,848,500.66	20,014,500.48
Capital Loan #3	2-Oct-02	50	2-Oct-52	11,736,595.45		7,122,796.24	18,859,391.69
Capital Loan #4	15-Feb-06	50	15-Feb-56	18,391,197.79		7,174,021.18	25,565,218.97
Capital Loan #5	27-Apr-15	50	27-Apr-65	1,823,748.00		9,675.52	1,833,423.52
Subtotal Dist 38 Capital Loans				53,117,541.06		45,885,983.61	99,003,524.67
District 51, Foley	27-Jun-89	30	27-Jun-19	4,852,686.00		15,962,880.97	20,815,566.97
District 95, Cromwell	30-Jul-91	50	30-Jul-41	3,212,424.00		6,967,435.20	10,179,859.20
District 299, Caledonia	20-Sep-01	50	20-Sep-51	14,134,000.00	998,485.92	1,823,347.73	14,958,861.81
District 306, Laporte	21-Jun-01	50	21-Jun-51	7,200,000.00	4,499,366.80	708,281.41	3,408,914.61
District 333, Ogilvie	27-Apr-90	30	27-Apr-20	11,341,047.73		44,664,647.06	56,005,694.79
District 362, Littlefork	12-Nov-96	50	12-Nov-46	7,000,000.00		10,703,257.87	17,703,257.87
District 682, Roseau	29-Oct-91	50	29-Oct-41	8,299,865.00		11,885,151.24	20,185,016.24
District 690, Warroad	6-Mar-86	50	6-Mar-16	1,295,000.00		7,803,883.66	9,098,883.66
District 707, Nett Lake							
Capital Loan #1	7-Jul-94	50	7-Jul-44	7,824,669.00		15,348,833.39	23,173,502.39
Capital Loan #2	24-Oct-06	50	24-Oct-56	10,695,268.36		3,946,392.22	14,641,660.58
Subtotal Dist 707 Capital Loans				18,519,937.36		19,295,225.61	37,815,162.97
District 2580, East Central	27-Dec-01	50	27-Dec-51	19,000,000.00		9,471,060.80	28,471,060.80
TOTAL CAPITAL LOANS				154,872,501.15	5,497,852.72	186,053,976.59	335,428,625.02
Debt Service Loans							
District 51, Foley	28-Jul-92	N/A	N/A	104,621.69		246,254.71	350,876.40
District 95, Cromwell	17-Aug-93	N/A	N/A	55,042.52		183,541.36	238,583.88
District 682, Roseau	28-Jul-92	N/A	N/A	89,014.67		176,726.97	265,741.64
District 690, Warroad	28-Jul-92	N/A	N/A	273,449.95		1,297,440.34	1,570,890.29
TOTAL DEBT SERVICE LOANS				522,128.83		1,903,963.38	2,426,092.21
TOTAL MAXIMUM EFFORT LOANS				155,394,629.98	5,497,852.72	187,957,939.97	337,854,717.23

Capital Loan Cancellations from 7/22/2007 to 12/15/2015

District	Date Granted	Cancel Date	Original Loan Cancelled	Defaulted Interest Cancelled	Current Interest Cancelled	Total Capital Loan Cancelled
So Kooch R R ISD 363	22-Jul-77	2-Jul-07	7,012,075.00	14,975,223.93	627,330.77	22,614,629.70
Bertha-Hewitt ISD 786	1-Jul-80	1-Jul-10	954,000.00	2,070,579.00	76,458.04	3,101,037.04
Big Lake ISD 727 (1st loan)	9-Jan-81	9-Jan-11	1,685,000.00	1,434,792.88	9,957.70	3,129,750.58
Hill City ISD 2	9-Jun-81	9-Jun-11	4,371,379.07	13,377,040.54	453,581.53	18,202,001.14
So Kooch R R ISD 363	22-Dec-81	18-Aug-11		153,284.22	7,666.32	160,950.54
St Michael Albertville ISD 885	21-Mar-91	9-Nov-11		18,309,535.60	1,627,587.16	19,937,122.76
Farmington ISD 192	11-Jul-91	15-Nov-11		12,669,495.42	1,132,803.17	13,802,298.59
Redwood Falls ISD 2897	30-May-90	17-Nov-11		10,737,612.68	1,047,703.12	11,785,315.80
Lake of the Woods ISD 390	4-Apr-91	15-Dec-11		16,388,807.18		16,388,807.18
Big Lake ISD 727 (2nd loan)	24-Jul-95	25-Apr-12		11,194,756.51	405,026.00	11,599,782.51
Barnum ISD 91	1-Mar-82	1-Mar-12	3,710,000.00	12,947,845.53	186,248.40	16,844,093.93
Total			17,732,454.07	114,258,973.49	5,574,362.21	137,565,789.77

Repayments Per Laws 2011 ISP, CH. 11, Art. 4, Sec. 8

District Name and Number	Date Granted Cap Loan	Retirement Date	Capital Loan Receipts on Date	Total Interest Cancelled	Pay-off of Debt Service Loans	Total Maximum Effort Pay-off
Farmington ISD 192	11-Jul-91	15-Nov-11	8,826,713.00	13,802,298.59	80,821.53	8,907,534.53
South Koochiching-RR ISD 363	22-Dec-81	18-Aug-11	61,335.00	160,950.54		61,335.00
Lake of the Woods ISD 390	4-Apr-91	15-Dec-11	8,000,000.00	16,388,807.18	80,163.07	8,080,163.07
Big Lake ISD 727	24-Jul-95	25-Apr-12	9,770,000.00	11,599,782.51		9,770,000.00
St. Michael-Albert ISD 885	21-Mar-91	9-Nov-11	9,800,000.00	19,937,122.78		9,800,000.00
Redwood Falls ISD 2897	30-May-90	17-Nov-11	5,837,211.00	11,785,315.90	90,979.91	5,928,190.91
Total			42,295,259.00	73,674,277.50	251,964.51	42,547,223.51